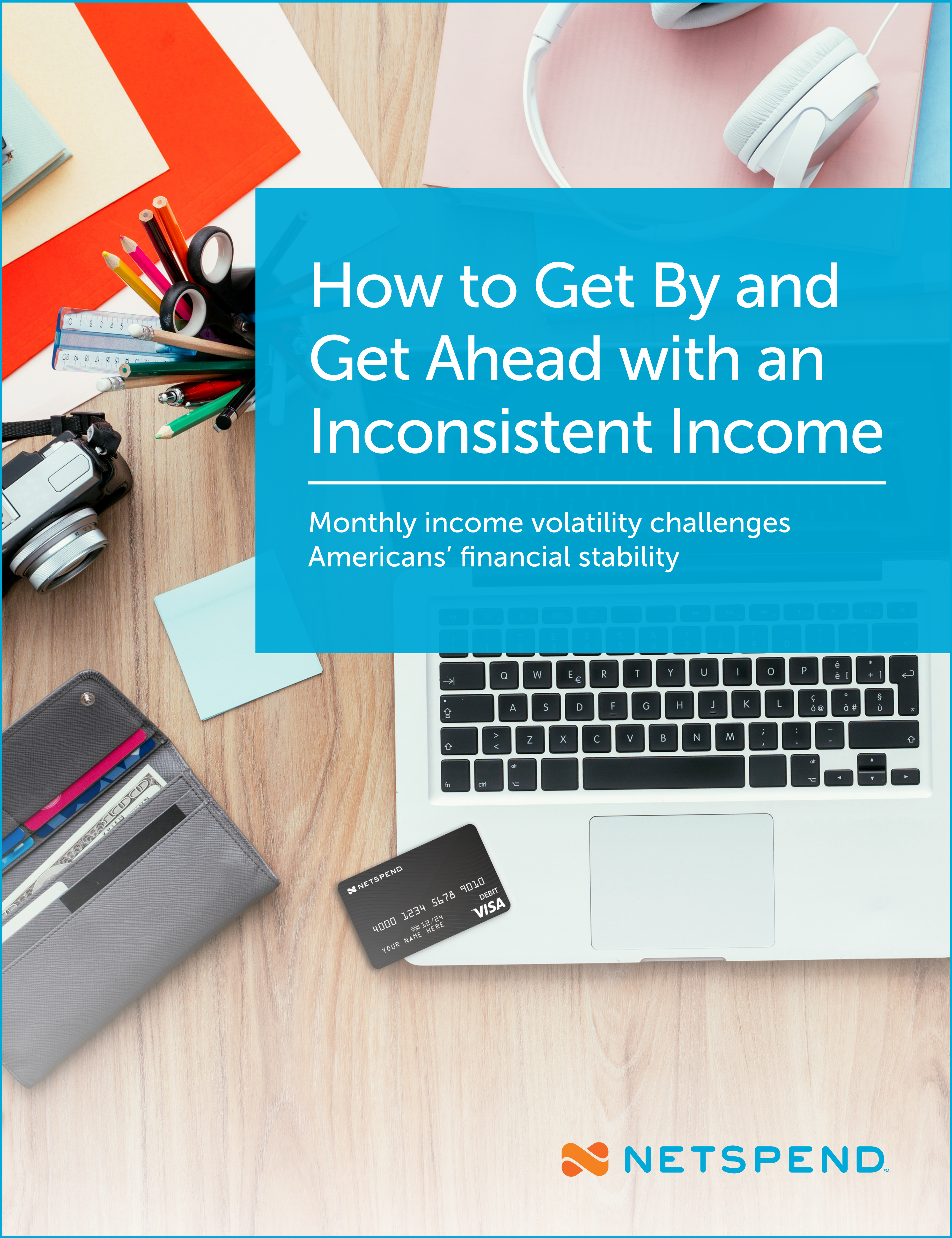
How to Get By and Get Ahead with an Inconsistent Income

Monthly income volatility challenges Americans’ financial stability



NETSPEND

Income Volatility Isn't Unusual

Think about your next paycheck. Do you know the exact dollar amount you'll receive? The exact day you'll receive it? It may surprise you that for many people, the answers are no. In 2017, the J.P. Morgan Chase Institute found that, on average, 55% of Americans experience more than a 30% month-to-month change in their total income. While some of these changes were expected or planned for, others were not. Netspend surveyed over 2,700 Americans to better understand the nature of this volatility. The survey results reflected that approximately one in five individuals deal with unpredictable fluctuations in their monthly income.

Income volatility is when a person's income changes unpredictably, either increasing or decreasing in amount.

With such significant portions of the population living with an unpredictable income, it's important for employers, banks, workers and companies to understand the financial challenges this uncertainty can bring. For those living in a city with housing affordability issues and transportation challenges, personal income fluctuation becomes even more pronounced and difficult to mitigate. While some tools and strategies are available to help individuals manage income volatility better, there is still opportunity for employers and financial institutions to offer resources in a more focused manner, and on a larger scale.

Approximately **1 in 5** people deal with unpredictable fluctuations in their monthly income.

Frequent Fluctuations

Income volatility is defined differently by various researching bodies: Pew Charitable Trusts looks at year-over-year changes in **annual** income, while the Tax Policy Center has studied household incomes that spike above, or dip below, their average **monthly** income for one to six months out of a year. Other studies have evaluated volatility as longer-term, **two-year** income fluctuations.

57% of those who experience frequent income volatility are dealing with it **each month.***

However, with recent economic and employment trends affecting shorter-term income volatility, understanding the financial impact on consumers has never been more important to our economy and society at large. Payroll schedules have diversified, and the gig economy and self-employment rates continue to grow. This has resulted in diverse professional groups – from day traders, freelancers and self-employed attorneys to rideshare drivers, construction workers and substitute teachers – experiencing frequent changes in income.

Only **6%** say their employer offers tools to ease the burden of income volatility.*

The Role of Employers

Despite the prevalence of income volatility, survey respondents reported that very few employers are addressing the challenges financial instability poses. Only 6% of those who experience frequent income volatility claimed their employer offered tools or benefits to help them effectively manage a variable income. There's significant room for improvement in this area, and plenty of opportunities for businesses and the financial services industry to work together to implement better solutions.

Additionally, two in five respondents said they plan to look for a new job next year. American workers should keep this discrepancy in mind when looking for jobs and evaluating potential employers. If an organization doesn't offer a fixed payment structure, one should ask a potential employer what they offer to help their employees navigate fluctuations in their monthly income.

Considering the high costs related to workforce turnover, and the positive impacts of financial wellness programs, it makes sense for U.S. employers to evaluate their role in helping employees manage income fluctuations. The Society for Human Resource Management estimates that replacing an employee can cost up to 50-60% of their annual salary. And in 2018, Prudential found that employers and employees report higher satisfaction with their benefit plans when they include financial wellness programs.

Employers that provide tools and resources to ease the burden of income volatility have an opportunity to impact their bottom line and increase employee satisfaction. Employers can explore technology solutions like DailyPay and PayActiv that give employees greater control over when they get paid by allowing access to their earned wages prior to payday. To implement more comprehensive employee financial wellness programs, employers can turn to platforms like KeyBank's Key@Work and SmartDollar as examples of programs that are differentiating employers in the market.

Mixed Feelings Toward Volatility

Traditionally, income volatility has had a negative connotation. However, it does not necessarily equate to financial hardship, unhappiness or inability to repay debt. We found a split in sentiment and satisfaction among those who experience frequent fluctuations in their income. For some individuals, it means struggling to meet daily financial commitments, and for others, it means a higher annual income and a more comfortable lifestyle.

How satisfied are you with your current income situation?*

41% Dissatisfied or very dissatisfied

33% Neither satisfied nor dissatisfied

26% Very satisfied or satisfied

Given the choice between a steady income and other potential job perks, **respondents favored predictability unless it meant sacrificing total annual income.** This further highlights the conflicting feelings people have about working in a job or field that results in fluctuating paychecks. While most individuals would ultimately rather make more money, many would be willing to give up benefits such as flexibility, vacation time and job satisfaction if it meant greater stability in their everyday financial lives.

What is the value of financial predictability?*

If you had to choose...

58% chose a higher annual income **OVER** a more predictable income

57% chose a more predictable income **OVER** greater job satisfaction

56% chose a more predictable income **OVER** greater flexibility with their time

58% chose a more predictable income **OVER** more paid vacation time

The Financial Impact: From Surviving to Saving

The financial implications of income volatility vary, along with people's opinions. Most respondents who experience frequent income volatility can pay their bills without difficulty, but close to half are in debt. In other words, people are getting by but facing challenges getting ahead of their financial obligations.

Nothing underlines the challenge of getting ahead financially more than respondents' struggle to save– **59% say it's difficult or very difficult to save money while experiencing frequent income volatility.*** The impact of this comes through in different ways, affecting people's quality of life and future planning, as well as putting many at risk of medical debt challenges. In 2018, Northwestern Mutual found a staggering 46% of Americans claimed they wouldn't be able to pay for an unexpected medical bill, considering their income situation. Another 21% said they had nothing saved for the future. When Netspend delved further into those individuals with an unpredictable income, we found that nearly half of survey respondents are unable to invest in their future retirement. Given the challenges faced by our Social Security system, a higher average life expectancy, increased health challenges for the elderly and inflationary trends, it's more important than ever for Americans to begin saving for their future as early as possible.

57% do not have difficulty paying their bills*

48% have debt*

Challenges of Frequent Income Volatility

49% unable to invest in retirement

48% unable to afford vacations

46% unable to pay for an unexpected medical bill

For many Americans who are struggling to save money or pay off debt, there are free online tools that can help. Mint.com or the Mint App is a simple way to create and maintain a budget and manage your money. To track your debt, find a payoff strategy and stay on top of your upcoming debt payment, Nerdwallet offers a debt calculator and online informational resources.

Tips for Managing an Unpredictable Income

How are people dealing with these challenges? We found that the most common way of navigating unpredictable income is by cutting unnecessary expenses – 50% of respondents who experience frequent income volatility use this strategy. However, beyond maintaining a lean budget, there are additional ways to cover monthly expenses and begin saving for the future or handling unexpected events.

The key consideration to keep in mind when managing money on an unpredictable income is that "timing is everything" – it's important to think about *when* you should save, spend or cut back. These tips will help plan for the times when a paycheck is higher than average and when it's lower than anticipated:

1 Create an adjustable budget

Start by estimating a baseline budget based on the lowest monthly income and the minimum expenses needed to cover items such as housing, utility bills, transportation, groceries and critical childcare. By categorizing a budget and separating essential and nonessential expenses, you'll have some flexibility from month to month. For periods that you have a bigger paycheck, you can maintain the usual baseline budget and potentially contribute to savings. For months with less income, you'll already know which extraneous expenses to cut.

2 Track your cash flow

When you're not sure how much income you'll get with each paycheck, it's important to keep a close eye on every dollar that goes in and out of your account. Consider setting up real-time alerts that will help you stay up to date and aware of all your financial activity. You can also use free tools like Mint and EveryDollar to keep your budget and cash flow easily accessible to monitor regularly.

3 Seek out the right savings account

While saving may be a challenge, you can make the most of each dollar you set aside by choosing a savings account with a high-interest rate or a special offer on interest rates. There are also options for accounts with a low minimum balance requirement, which can make it easier to maintain and build savings.

4 Save seasonally

Even if you can't put money into savings every month, consider the times during the year that your income is higher than normal. This could be during a peak season at work or when you receive your annual tax return. Identify these periods and set money aside for your retirement fund and future expenses like medical bills, vacations or holiday shopping.

5 Use multiple accounts to categorize funds

When you receive a paycheck, use your primary checking account or a prepaid debit card to set aside money for that month's essential expenses. Then, during months when extra cash is available, use separate accounts to set aside funds for future month's essential expenses and emergencies such as medical bills or car repairs.

6 Pay down debts with bigger paychecks

Make a list of all your existing debts and begin to develop a plan for how you'll pay them down during times when your income is higher than average. If you have credit card debt, review your monthly statements and determine which card has the highest interest rate. Consider paying off this card first and then continue to pay those with lesser interest rates or penalties. Over time, eliminating debt will enable you to save for unexpected losses of income and not use valuable extra cash on high debt activity.

Conclusion

Individuals can make gradual and steady improvements to their financial health by taking some of the steps mentioned above; however, widespread progress will only occur if employers and influential players in the financial services industry contribute in new and creative ways to support individuals who experience income volatility. Now more than ever, larger groups of Americans are living with the challenges of an inconsistent monthly income. By offering tools, building solutions and creating a broader array of services that cater to different income situations, we can give more people the opportunity to plan ahead and save for future expenses. For many, flexible work has become the new normal – it's now time to acknowledge this situation and find new ways to support these individuals.

**These statistics are based on 500 survey participants who said they experience income volatility on a monthly basis.*

Methodology

Netspend sponsored an independent and anonymous web-based survey of 2,732 U.S. consumers, of whom 500 claimed to experience frequent income volatility and completed the survey.

Respondent Demographics

- **Ages:** 18-65 (census balance)
- **Location:** United States
- **Gender:** Male and female (census balance)
- All incomes